UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)
☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2023
OR
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: **001-34382**

ROCKY BRANDS, INC.
(Exact name of Registrant as specified in its charter)

Ohio	**No. 31-1364046**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

39 East Canal Street, Nelsonville, Ohio 45764
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **(740) 753-9100**

Title of class	Trading symbol	Name of exchange on which registered
Common Stock – No Par Value	RCKY	Nasdaq

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for at least the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in 12b-2 of the Exchange Act.

☐ Large accelerated filer	☒ Accelerated filer
☐ Non-accelerated filer	☐ Smaller reporting company
	☐ Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

There were 7,377,829 shares of the Registrant's Common Stock outstanding on October 31, 2023.

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ITEM 1 – FINANCIAL STATEMENTS

Rocky Brands, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(In thousands, except share amounts)
(Unaudited)

	September 30, 2023	December 31, 2022	September 30, 2022
ASSETS:			
CURRENT ASSETS:			
Cash and cash equivalents	$ 4,240	$ 5,719	$ 7,277
Trade receivables – net	97,844	94,953	118,193
Contract receivables	2,990	-	-
Other receivables	2,207	908	490
Inventories – net	194,734	235,400	265,082
Income tax receivable	2,445	-	1,633
Prepaid expenses	4,985	4,067	4,360
Total current assets	309,445	341,047	397,035
LEASED ASSETS	7,982	11,014	9,971
PROPERTY, PLANT & EQUIPMENT – net	53,124	57,359	60,271
GOODWILL	47,844	50,246	50,246
IDENTIFIED INTANGIBLES – net	113,321	121,782	122,552
OTHER ASSETS	1,015	942	878
TOTAL ASSETS	$ 532,731	$ 582,390	$ 640,953
LIABILITIES AND SHAREHOLDERS' EQUITY:			
CURRENT LIABILITIES:			
Accounts payable	$ 62,733	$ 69,686	$ 101,683
Contract liabilities	2,990	-	-
Current Portion of Long-Term Debt	2,704	3,250	3,250
Accrued expenses:			
Salaries and wages	2,685	1,253	3,667
Taxes – other	832	1,325	1,784
Accrued freight	2,707	2,413	3,842
Commissions	823	1,934	1,619
Accrued duty	6,395	6,764	8,051
Accrued interest	2,280	2,822	2,314
Income tax payable	-	1,172	-
Other	5,553	5,675	5,486
Total current liabilities	89,702	96,294	131,696
LONG-TERM DEBT	211,190	253,646	281,515
LONG-TERM TAXES PAYABLE	169	169	169
LONG-TERM LEASE	5,715	8,216	7,394
DEFERRED INCOME TAXES	8,006	8,006	10,293
DEFERRED LIABILITIES	1,179	586	558
TOTAL LIABILITIES	315,961	366,917	431,625
SHAREHOLDERS' EQUITY:			
Common stock, no par value;			
25,000,000 shares authorized; issued and outstanding September 30, 2023 - 7,366,201; December 31, 2022 - 7,339,011; September 30, 2022 - 7,322,232	70,757	69,752	68,986
Retained earnings	146,013	145,721	140,342
Total shareholders' equity	216,770	215,473	209,328
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 532,731	$ 582,390	$ 640,953

See Notes to Unaudited Condensed Consolidated Financial Statements

Rocky Brands, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
NET SALES	$ 125,614	$ 147,486	$ 335,881	$ 476,549
COST OF GOODS SOLD	79,076	95,556	208,012	308,042
GROSS MARGIN	46,538	51,930	127,869	168,507
OPERATING EXPENSES	32,259	40,305	107,233	138,089
INCOME FROM OPERATIONS	14,279	11,625	20,636	30,418
INTEREST EXPENSE AND OTHER – net	(5,649)	(4,181)	(15,943)	(12,411)
INCOME BEFORE INCOME TAX EXPENSE	8,630	7,444	4,693	18,007
INCOME TAX EXPENSE	1,803	1,753	980	4,057
NET INCOME	$ 6,827	$ 5,691	$ 3,713	$ 13,950
INCOME PER SHARE				
Basic	$ 0.93	$ 0.78	$ 0.50	$ 1.91
Diluted	$ 0.93	$ 0.77	$ 0.50	$ 1.89
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	7,366	7,319	7,355	7,313
Diluted	7,375	7,349	7,374	7,382

See Notes to Unaudited Condensed Consolidated Financial Statements

Rocky Brands, Inc. and Subsidiaries
Condensed Consolidated Statements of Shareholders' Equity
(In thousands, except per share amounts)
(Unaudited)

	Common Stock and Additional Paid-in Capital Shares Outstanding	Common Stock and Additional Paid-in Capital Amount	Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholders' Equity
BALANCE - December 31, 2021	7,302	$ 68,061	$ -	$ 129,794	$ 197,855
NINE MONTHS ENDED SEPTEMBER 30, 2022					
Net income				$ 7,338	$ 7,338
Dividends paid on common stock ($0.155 per share)				(1,133)	(1,133)
Stock issued for options exercised, including tax benefits	7	$ 145		-	145
Stock compensation expense	2	248		-	248
BALANCE - March 31, 2022	7,311	$ 68,454	$ -	$ 135,999	$ 204,453
Net income				$ 920	$ 920
Dividends paid on common stock ($0.155 per share)				(1,132)	(1,132)
Stock issued for options exercised, including tax benefits	-	-		-	-
Stock compensation expense	2	$ 226		-	226
BALANCE - June 30, 2022	7,313	$ 68,680	$ -	$ 135,787	$ 204,467
Net income				$ 5,691	$ 5,691
Dividends paid on common stock ($0.155 per share)				(1,136)	(1,136)
Stock issued for options exercised, including tax benefits	7	$ 79		-	79
Stock compensation expense	2	227		-	227
BALANCE - September 30, 2022	7,322	$ 68,986	$ -	$ 140,342	$ 209,328
BALANCE - December 31, 2022	7,339	$ 69,752	$ -	$ 145,721	$ 215,473
NINE MONTHS ENDED SEPTEMBER 30, 2023					
Net loss				$ (398)	$ (398)
Dividends paid on common stock ($0.155 per share)				(1,141)	(1,141)
Stock issued for options exercised, including tax benefits	1	$ 8		-	8
Stock compensation expense	7	347		-	347
BALANCE - March 31, 2023	7,347	$ 70,107	$ -	$ 144,182	$ 214,289
Net loss				$ (2,715)	$ (2,715)
Dividends paid on common stock ($0.155 per share)				(1,139)	(1,139)
Stock issued for options exercised, including tax benefits	-	-		-	-
Stock compensation expense	7	$ 293		-	293
BALANCE - June 30, 2023	7,354	$ 70,400	$ -	$ 140,328	$ 210,728
Net income				$ 6,827	$ 6,827
Dividends paid on common stock ($0.155 per share)				(1,142)	(1,142)
Stock issued for options exercised, including tax benefits	4	$ 75		-	75
Stock compensation expense	8	282		-	282
BALANCE - September 30, 2023	7,366	$ 70,757	$ -	$ 146,013	$ 216,770

See Notes to Unaudited Condensed Consolidated Financial Statements

Rocky Brands, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,713	$ 13,950
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,251	8,759
Amortization of debt issuance costs	640	640
Provision for bad debts	526	1,935
Loss (gain) on disposal of assets	143	(1,174)
Gain on sale of business	(1,341)	-
Stock compensation expense	922	701
Change in assets and liabilities:		
Receivables	(3,015)	6,719
Contract receivables	(2,990)	1,062
Inventories	34,502	(34,667)
Other current assets	(918)	1,604
Other assets	2,959	39
Accounts payable	(8,396)	(14,690)
Accrued and other liabilities	(3,315)	4,195
Income taxes	(3,538)	2,661
Contract liabilities	2,990	(1,062)
Net cash provided by (used in) operating activities	31,133	(9,328)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(2,931)	(5,677)
Proceeds from the sale of assets	-	5,469
Proceeds from sale of business	17,300	-
Net cash provided by (used in) investing activities	14,369	(208)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit facility	50,496	30,531
Repayments on revolving credit facility	(66,400)	(11,013)
Repayments on term loan	(27,738)	(5,437)
Proceeds from stock options	83	224
Dividends paid on common stock	(3,422)	(3,401)
Net cash (used in) provided by financing activities	(46,981)	10,904
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,479)	1,368
CASH AND CASH EQUIVALENTS:		
BEGINNING OF PERIOD	5,719	5,909
END OF PERIOD	$ 4,240	$ 7,277

See Notes to Unaudited Condensed Consolidated Financial Statements

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

We are a leading designer, manufacturer and marketer of premium quality footwear and apparel marketed under a portfolio of well recognized brand names including Rocky, Georgia Boot, Durango, Lehigh, The Original Muck Boot Company ("Muck"), XTRATUF and Ranger. Our brands have a long history of representing high quality, comfortable, functional and durable footwear and our products are organized around six target markets: outdoor, work, duty, commercial military, military and western. In addition, as part of our strategy of outfitting consumers from head-to-toe, we market complementary branded apparel and accessories that we believe leverage the strength and positioning of each of our brands.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments that are necessary for a fair presentation of the financial results. All such adjustments reflected in the unaudited condensed consolidated financial statements are considered to be of normal and recurring nature. The results of operations for the three and nine months ended September 30, 2023 and 2022 are not necessarily indicative of the results to be expected for the whole year. The December 31, 2022 condensed consolidated balance sheet data was derived from the audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). This Quarterly Report on Form 10-Q should be read in connection with our Annual Report on Form 10-K for the year ended December 31, 2022, which includes all disclosures required by GAAP.

2. ACCOUNTING STANDARDS UPDATES

Accounting Standards Adopted in the Current Year

Standard	Description	Effect on the financial statements or other significant matters
ASU 2016-13, Measurement of Credit Losses on Financial Instruments	The pronouncement seeks to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date by replacing the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.	We adopted the new standard in Q1 2023 and the standard has not had a significant impact on our Consolidated Financial Statements year to date.

3. FAIR VALUE

Generally accepted accounting standards establish a framework for measuring fair value. The fair value accounting standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This standard clarifies how to measure fair value as permitted under other accounting pronouncements.

The fair value accounting standard defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. This standard also establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs other than quoted market prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The fair values of cash and cash equivalents, receivables, and payables approximated their carrying values because of the short-term nature of these instruments. Receivables consist primarily of amounts due from our customers, net of allowances, other customer receivables, net of allowances, and expected insurance recoveries. The carrying amounts of our long-term credit facility and other short-term financing obligations also approximate fair value, as they are comparable to the available financing in the marketplace during the year. The fair value of our credit facilities is categorized as Level 2.

We hold assets and liabilities in a separate trust in connection with deferred compensation plans. The fair value of these assets is based on unadjusted quoted market prices for the funds in active markets with sufficient volume and frequency (Level 1).

4. SALE OF SERVUS BRAND AND RELATED ASSETS

On March 30, 2023, we completed the sale of the Servus brand and related assets to PQ Footwear, LLC and Petroquim S.R.L. (collectively "the Buyer"). Total consideration for this transaction was approximately $19.0 million, of which $17.3 million was received at closing. The remaining $1.7 million will be paid out in accordance with the purchase agreement. The sale of the Servus brand included the sale of inventory, fixed assets, customer relationships, tradenames, and goodwill, all of which related to our Wholesale segment. In connection with the sale of the Servus brand we also are licensing the rights to certain proprietary processes to the Buyer. We recorded a gain on the sale of Servus of approximately $1.3 million which is recorded within Interest Expense and Other - net on the accompanying unaudited condensed consolidated statement of operations for the nine months ended September 30, 2023.

5. SALE OF NEOS BRAND AND RELATED ASSETS

On September 30, 2022, we completed the sale of the NEOS brand and related assets to certain entities controlled by SureWerx pursuant to terms of an asset purchase agreement dated September 30, 2022. Total consideration for this transaction was approximately $5.8 million, of which $5.5 million was received at closing. The remaining $0.3 million was deposited in escrow and will be managed and paid out in accordance with the terms of the asset purchase agreement and the escrow agreement. The sale of NEOS brand included the sale of inventory, fixed assets, customer relationships and tradenames, all of which related to our Wholesale segment.

6. REVENUE

Nature of Performance Obligations

Our products are distributed through three distinct channels, which represent our business segments: Wholesale, Retail, and Contract Manufacturing. In our Wholesale business, we distribute our products through a wide range of distribution channels representing over 10,000 retail store locations in the U.S., Canada, and internationally, mainly Europe. Our Wholesale channels vary by product line and include sporting goods stores, outdoor specialty stores, online retailers, marine stores, independent retailers, mass merchants, retail uniform stores, and specialty safety shoe stores. Our Retail business includes direct sales of our products to consumers through our e-commerce websites, our Rocky Outdoor Gear Store, and Lehigh businesses. We also sell footwear under the Rocky Brands label to the U.S. Military.

Significant Accounting Policies and Judgements

Revenue is recognized when obligations under the terms of a contract with our customer are satisfied; this generally occurs upon shipment of our product to our customer, which is when the transfer of control of our products passes to the customer. The duration of our arrangements with our customers are typically one year or less. Revenue is measured as the amount of consideration we expect to receive in exchange for the transfer of our products at a point in time and consists of either fixed or variable consideration or a combination of both.

Revenues from sales are recorded at the net sales price, which includes estimates of variable consideration for which reserves are established. Components of variable consideration include prompt payment discounts, volume rebates, and product returns. These reserves, as detailed below, are based on the amounts earned, or to be claimed on the related sales, and are classified as reductions of accounts receivable (if the amount is payable to the customer) or a current liability (if the amount is payable to a party other than a customer).

The amount of variable consideration which is included in the transaction price may be constrained and is included in the net sales price only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized under the contract will not occur in a future period. Our analyses also contemplated application of the constraint in accordance with the guidance, under which it determined a material reversal of revenue would not occur in a future period for the estimates detailed below as of September 30, 2023. Actual amounts of consideration ultimately received may differ from our estimates. If actual results in the future vary from our estimates, we will adjust these estimates, which would affect net revenue and earnings in the period such variances become known.

When a customer has a right to a prompt payment discount, we estimate the likelihood that the customer will earn the discount using historical data and adjust our estimate when the estimate of the likelihood that a customer will earn the discount changes or the consideration becomes fixed, whichever occurs earlier. The estimated amount of variable consideration is recognized as a credit to trade receivables and a reduction in revenue until the uncertainty of the variable consideration is alleviated. Because most of our customers have payment terms of less than six months, there is not a significant financing component in our contracts with customers.

When a customer is offered a rebate on purchases retroactively, this is accounted for as variable consideration because the consideration for the current and past purchases is not fixed until it is known if the discount is earned. We estimate the expected discount the customer will earn at contract inception using historical data and projections and update our estimates when projections materially change or consideration becomes fixed. The estimated rebate is recognized as a credit to trade receivables and offset against revenue until the rebate is earned or the earning period has lapsed.

When a right of return is part of the arrangement with the customer, we estimate the expected returns based on an analysis using historical data. We adjust our estimate either when the most likely amount of consideration we expect to receive changes or when the consideration becomes fixed, whichever occurs earlier. See Note 7 and Note 8 for additional information.

Trade receivables represent our right to unconditional payment that only relies on the passage of time.

Current contract receivables represent contractual minimum payments required under non-cancellable contracts with the U.S. Military and other customers with a duration of one year or less.

Current contract liabilities are performance obligations that we expect to satisfy or relieve within the next twelve months, advance consideration obtained prior to satisfying a performance obligation, or unconditional obligations to provide goods or services under non-cancellable contracts before the transfer of goods or services to the customer has occurred. Our contract liability represents unconditional obligations to provide goods under non-cancellable contracts with the U.S. Military and other customers.

Items considered immaterial within the context of the contract are recognized as an expense.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue producing transaction, that are collected from customers are excluded from revenue.

Costs associated with our manufacturer's warranty continue to be recognized as expense when the products are sold in accordance with guidance surrounding product warranties.

Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in operating expenses.

Costs associated with obtaining a contract are expensed as incurred in accordance with the practical expedient in ASC 340-40 in instances where the amortization period is one year or less. We anticipate substantially all of our costs incurred to obtain a contract would be subject to this practical expedient.

Contract Balances

The following table provides information about contract liabilities from contracts with our customers.

($ in thousands)	September 30, 2023	December 31, 2022	September 30, 2022
Contract liabilities	$ 2,990	$ -	$ -

Significant changes in the contract liabilities balance during the period are as follows:

($ in thousands)	Contract liabilities
Balance, December 31, 2022	-
Non-cancelable contracts with customers entered into during the period	$ 2,990
Revenue recognized related to non-cancelable contracts with customers during the period	-
Balance, September 30, 2023	$ 2,990

Disaggregation of Revenue

All revenues are recognized at a point in time when control of our products pass to the customer at point of shipment. Because all revenues are recognized at a point in time and are disaggregated by channel, our segment disclosures are consistent with ASC 606 disaggregation requirements. See Note 15 for segment disclosures.

7. TRADE RECEIVABLES

Trade receivables are presented net of the related allowance for uncollectible accounts of approximately $2.1 million, $3.5 million and $2.5 million at September 30, 2023, December 31, 2022 and September 30, 2022, respectively. We record the allowance based on a data-driven approach, including historical experience, the age of the receivables, receivable insurance status, and identification of customer accounts that are likely to prove difficult to collect due to various criteria including pending bankruptcy. However, estimates of the allowance in any future period are inherently uncertain and actual allowances may differ from these estimates. If actual or expected future allowances were significantly greater or less than established reserves, a reduction or increase to bad debt expense would be recorded in the period this determination was made. Our credit policy generally provides that trade receivables will be deemed uncollectible and written-off once we have pursued all reasonable efforts to collect on the account.

In accordance with ASC 606, the return reserve liability netted against trade receivables was approximately $1.8 million, $2.1 million and $2.2 million at September 30, 2023, December 31, 2022 and September 30, 2022, respectively.

8. INVENTORY

Inventories are comprised of the following:

($ in thousands)	September 30, 2023	December 31, 2022	September 30, 2022
Raw materials	$ 16,700	$ 16,541	$ 18,959
Work-in-process	1,292	933	1,412
Finished goods	176,742	217,926	244,711
Total	$ 194,734	$ 235,400	$ 265,082

In accordance with ASC 606, the return reserve allowance included within inventories was approximately $1.0 million, $1.1 million and $1.2 million at September 30, 2023, December 31, 2022 and September 30, 2022, respectively.

9. GOODWILL

Goodwill represents the excess of the purchase price over the fair value of net tangible and identifiable intangible assets of acquired businesses. Goodwill arose from our acquisition of the performance and lifestyle footwear business of Honeywell International Inc. on March 15, 2021 (the "Acquisition"). The Acquisition expanded our brand portfolio to include the Muck, XTRATUF, Servus (see Note 4), NEOS (See Note 5) and Ranger brands (the "Acquired Brands"). Goodwill largely consists of the workforce acquired, expected cost synergies and economies of scale resulting from the business combination. The amount of goodwill that is expected to be deductible for tax purposes is $47.0 million.

GAAP has established guidance for reporting information about a company's operating segments, including disclosures related to a company's products and services, geographic areas and major customers. We monitor and review our segment reporting structure in accordance with authoritative guidance to determine whether any changes have occurred that would impact our reportable segments, as well as our reporting units. As previously stated, our operations represent three reporting segments: Wholesale, Retail and Contract Manufacturing. Goodwill impairment analysis will be performed for our Wholesale and Retail reporting segments. There is no goodwill allocated to our Contract Manufacturing segment. Of total goodwill, $23.0 million was allocated to our Wholesale segment and $24.8 million was allocated to our Retail segment.

Goodwill is subject to impairment tests at least annually. We review the carrying amounts of goodwill by reporting unit at least annually, or when indicators of impairment are present, to determine if goodwill may be impaired. We include assumptions about the expected future operating performance as part of a discounted cash flow analysis to estimate fair value. If the carrying value of these assets is not recoverable, based on the discounted cash flow analysis, management compares the fair value of the assets to the carrying value. Goodwill is considered impaired if the recorded value exceeds the fair value.

We may first assess qualitative factors to determine whether it is more likely than not that the fair value of goodwill is less than its carrying value. We would not be required to quantitatively determine the fair value of goodwill unless we determine, based on the qualitative assessment, that it is more likely than not that its fair value is less than the carrying value. Future cash flows of the individual indefinite-lived intangible assets are used to measure their fair value after consideration of certain assumptions, such as forecasted growth rates and cost of capital, which are derived from internal projection and operating plans. We perform our annual testing for goodwill at the beginning of the fourth quarter of each fiscal year.

10. IDENTIFIED INTANGIBLE ASSETS

A schedule of identified intangible assets is as follows:

($ in thousands)	Gross Amount	Accumulated Amortization	Carrying Amount
September 30, 2023			
Trademarks			
Wholesale [1]	$ 69,439	-	$ 69,439
Retail	9,220	-	9,220
Patents	895	$ 841	54
Customer relationships [2]	41,659	7,051	34,608
Total Intangibles	$ 121,213	$ 7,892	$ 113,321

(1) Servus trademarks were reduced from approximately $2.5 million to zero at March 30, 2023 as a result of the sale of the Servus brand (see Note 4).

(2) Customer relationships relating to the Servus brand of approximately $4.3 million and related amortization of approximately $0.6 million was reduced to zero at March 30, 2023 as a result of the sale of the Servus brand (see Note 4).

($ in thousands)	Gross Amount	Accumulated Amortization	Carrying Amount
December 31, 2022			
Trademarks			
Wholesale [1]	$ 71,979	-	$ 71,979
Retail	9,220	-	9,220
Patents	895	$ 826	69
Customer relationships [2]	46,006	5,492	40,514
Total Intangibles	$ 128,100	$ 6,318	$ 121,782

(1) NEOS trademarks were reduced from approximately $0.6 million to zero at September 30, 2022 as a result of the sale of the NEOS brand (see Note 5)

(2) Customer relationships relating to the NEOS brand of approximately $0.9 million and related amortization of approximately $0.1 million was reduced to zero at September 30, 2022 as a result of the sale of the NEOS brand (see Note 5).

($ in thousands)	Gross Amount	Accumulated Amortization	Carrying Amount
September 30, 2022			
Trademarks			
Wholesale	$ 71,981	-	$ 71,981
Retail	9,220	-	9,220
Patents	895	$ 821	74
Customer relationships	46,006	4,729	41,277
Total Intangibles	$ 128,102	$ 5,550	$ 122,552

(1) NEOS trademarks were reduced from approximately $0.6 million to zero at September 30, 2022 as a result of the sale of the NEOS brand (see Note 5).

(2) Customer relationships relating to the NEOS brand of approximately $0.9 million and related amortization of approximately $0.1 million was reduced to zero at September 30, 2022 as a result of the sale of the NEOS brand (see Note 5).

The weighted average life for our patents is 6.7 years.

A schedule of approximate amortization expense related to finite-lived intangible assets for the three and nine months ended September 30, 2023 and 2022 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2023	2022	2023	2022
Amortization expense	$ 697	$ 788	$ 2,175	$ 2,362

A schedule of approximate expected remaining amortization expense related to finite-lived intangible assets for the years ending December 31 is as follows:

($ in thousands)	Amortization Expense
2023	$ 697
2024	2,785
2025	2,781
2026	2,778
2027	2,776
2028	2,771
2029+	20,074

11.LONG-TERM DEBT

On March 15, 2021, we entered into a senior secured term loan facility ("Term Facility") with TCW Asset Management Company, LLC (TCW), as agent, for the lenders party thereto in the amount of $130 million. The Term Facility provided for quarterly payments of principal and bore interest of LIBOR plus 7.00% through June 30, 2021. After this date, interest is assessed quarterly based on our total leverage ratio. The total leverage ratio is calculated as (a) Total Debt to (b) EBITDA. If our total leverage ratio is greater than or equal to 4.00, the effective interest rate will be SOFR plus 7.75% (or at our option, Prime Rate plus 6.75%). If our total leverage ratio is less than 4.00 but greater than or equal to 3.50, the effective interest rate will be SOFR plus 7.50% (or at our option, Prime Rate plus 6.50%). If our total leverage ratio is less than 3.50 but greater than 3.00, the effective interest rate will be SOFR plus 7.00% (or at our option, Prime Rate plus 6.00%). If our total leverage ratio is less than 3.00, the effective interest rate will be SOFR plus 6.50% (or at our option, Prime Rate plus 5.50%).The Term Facility also has a SOFR floor rate of 1.00%. In June 2022, we entered into a second amendment with TCW to further amend our Term Facility to consent to the modifications in our borrowing capacity under the ABL Facility as described below, and to adjust certain pricing and prepayment terms, among other things. The second amendment also modified the interest index to provide the use of SOFR to calculate interest rather than LIBOR. The effective interest rate was increased to SOFR plus 7.50% through November 2022. In November 2022, the Term Facility was amended to increase the effective interest rate to SOFR plus 7.00% until June 2023 and to provide certain EBITDA adjustments with respect to financial covenants, among other things. In May 2023, we entered into a fourth amendment with TCW to further amend our Term Facility to provide certain EBITDA adjustments in respect of the financial covenants, adjust the method to calculate total debt, continue certain pricing terms, extend certain prepayment terms, and pay such lenders certain amendment fees, among other things. In October 2023, we entered into a sixth amendment with TCW to further amend our Term Facility to provide certain EBITDA adjustments in respect of the financial covenants, adjust the performance pricing grid, adjust the total leverage ratio periodically through June 30, 2025, among other things.

Our Term Facility is collateralized by a second-lien on accounts receivable, inventory, cash and related assets and a first-lien on substantially all other assets. The Term Facility matures on March 15, 2026.

On March 15, 2021, we also entered into a senior secured asset-based credit facility ("ABL Facility") with Bank of America, N.A. ("Bank of America") as agent, for the lenders party thereto. The ABL Facility provides a new senior secured asset-based revolving credit facility up to a principal amount of $150 million, which includes a sub-limit for the issuance of letters of credit up to $5 million. The ABL Facility may be increased up to an additional $50 million at the Borrowers' request and the Lenders' option, subject to customary conditions. In June 2022, we further amended our ABL Facility to temporarily increase our borrowing capacity to $200 million through December 31, 2022, which thereafter will be reduced to $175 million. In November 2022, we entered into a third amendment to our ABL Facility to provide certain EBITDA adjustments with respect to our financial covenant. The ABL Facility includes a separate first in, last out (FILO) tranche, which allows the Company to borrow at higher advance rates on eligible accounts receivables and inventory balances. In October 2023, we entered into a fifth amendment to our ABL Facility to provide certain EBITDA adjustments with respect to our financial covenant. As of September 30, 2023, we had borrowing capacity of $37.6 million.

The ABL Facility is collateralized by a first-lien on accounts receivable, inventory, cash and related assets and a second-lien on substantially all other assets. The ABL Facility matures on March 15, 2026. Interest on the ABL Facility is based on the amount available to be borrowed as set forth on the following chart:

Revolver Pricing Level	Average Availability as a Percentage of Commitments	Base Rate	Term SOFR Loan	Base Rate for FILO	Term SOFR FILO Loans
I	> 66.7%	0.00%	1.25%	0.50%	1.75%
II	>33.3% and < or equal to 66.7%	0.00%	1.50%	0.50%	2.00%
III	< or equal to 33.3%	0.25%	1.75%	0.75%	2.25%

In connection with the Term Facility and ABL Facility, we had to pay certain fees that were capitalized and will be amortized over the life of each respective loan. In addition, the ABL Facility requires us to pay an annual collateral management fee in the amount of $75,000 due on each anniversary of the ABL Facility issuance date, until it matures.

Current and long-term debt consisted of the following:

($ in thousands)	September 30, 2023	December 31, 2022	September 30, 2022
Term Facility that matures in 2026 with an effective interest rate of 12.77%, 12.14% and 9.06% as of September 30, 2023, December 31, 2022 and September 30, 2022, respectively	$ 88,594	$ 116,332	$ 122,125
ABL Facility that matures in 2026:			
SOFR borrowings with an effective interest rate of 7.25%, 5.47% and 5.52% as of September 30, 2023, December 31, 2022 and September 30, 2022, respectively	124,660	140,000	162,839
Prime borrowings with an effective interest rate of 8.75%, 7.27% and 6.50% as of September 30, 2023, December 31, 2022 and September 30, 2022, respectively	2,737	3,301	2,752
Total debt	215,991	259,633	287,716
Less: Unamortized debt issuance costs	(2,097)	(2,737)	(2,951)
Total debt, net of debt issuance costs	213,894	256,896	284,765
Less: Debt maturing within one year	(2,704)	(3,250)	(3,250)
Long-term debt	$ 211,190	$ 253,646	$ 281,515

Credit Facility Covenants

The Term Facility contains restrictive covenants which require us to maintain a maximum total leverage ratio and a minimum fixed charge coverage ratio, as defined in the Term Facility agreement. We are in compliance with all credit facility covenants as of September 30, 2023, December 31, 2022 and September 30, 2022.

Our ABL Facility contains a restrictive covenant which requires us to maintain a fixed charge coverage ratio upon a triggering event taking place (as defined in the ABL Facility agreement). During the three and nine months ended September 30, 2023 and 2022, there were no triggering events and the covenant was not in effect.

Both the Term Facility and the ABL Facility contain restrictions on the amount of dividend payments.

12. TAXES

We are subject to tax examinations in various taxing jurisdictions. The earliest years open for examination are as follows:

	Earliest Exam Year
Taxing Authority Jurisdiction:	
U.S. Federal	2019
Various U.S. States	2018
Puerto Rico (U.S. Territory)	2018
Canada	2018
China	2019
Mexico	2021
United Kingdom	2021
Australia	2021

Our policy is to accrue interest and penalties on any uncertain tax position as a component of income tax expense. No such expenses were recognized during the three and nine months ended September 30, 2023 and 2022. We do not believe there will be any material changes in our uncertain tax positions over the next 12 months.

Accounting for uncertainty in income taxes requires financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements. Under this guidance, income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of the standard. We did not have any unrecognized tax benefits and there was no effect on our financial condition or results of operations.

Our estimated effective tax rates for the three and nine months ended September 30, 2023 and 2022 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Effective Tax Rate	20.9%	23.5%	20.9%	22.5%

13. EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income applicable to common shareholders by the weighted average number of common shares outstanding during each period. The diluted earnings per share computation includes common share equivalents, when dilutive.

A reconciliation of the shares used in the basic and diluted income per common share computation for the three and nine months ended September 30, 2023 and 2022 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(shares in thousands)	2023	2022	2023	2022
Basic - weighted average shares outstanding	7,366	7,319	7,355	7,313
Dilutive restricted share units	3	-	5	-
Dilutive stock options	6	30	14	69
Diluted - weighted average shares outstanding	7,375	7,349	7,374	7,382
Anti-dilutive securities	262	236	262	117

14. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information for the nine months ended September 30, 2023 and 2022 was as follows:

	Nine Months Ended September 30,	
($ in thousands)	2023	2022
Interest paid	$ 10,133	$ 11,625
Federal, state, and local income taxes paid, net	$ 4,661	$ 4,191
Change in contract receivables, net	$ (2,990)	$ 1,062
Change in contract liabilities, net	$ 2,990	$ (1,062)
Property, plant, and equipment purchases in accounts payable	$ 942	$ 1,742

15. SEGMENT INFORMATION

We have identified three reportable segments: Wholesale, Retail and Contract Manufacturing. Our Wholesale segment includes sales of footwear and accessories to several classifications of retailers, including sporting goods stores, outdoor specialty stores, online retailers, marine stores, independent retailers, mass merchants, retail uniform stores, and specialty safety shoe stores. Our Retail segment includes direct sales of our products to consumers through our e-commerce websites, our Rocky Outdoor Gear Store, and Lehigh businesses. Our Contract Manufacturing segment includes sales to the U.S. Military, private label sales and any sales to customers in which we are contracted to manufacture or source a specific footwear product for a customer. The following is a summary of segment results for the Wholesale, Retail and Contract Manufacturing segments for the three and nine months ended September 30, 2023 and 2022.

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2023	2022	2023	2022
NET SALES:				
Wholesale	$ 99,716	$ 120,742	$ 251,228	$ 385,858
Retail	24,523	23,429	79,114	78,070
Contract Manufacturing	1,375	3,315	5,539	12,621
Total Net Sales	$ 125,614	$ 147,486	$ 335,881	$ 476,549
GROSS MARGIN:				
Wholesale	$ 34,599	$ 40,007	$ 89,084	$ 128,775
Retail	11,781	11,413	38,379	37,991
Contract Manufacturing	158	510	406	1,741
Total Gross Margin	$ 46,538	$ 51,930	$ 127,869	$ 168,507

16. RESTRUCTURING CHARGES

In September 2023, April 2023, and June 2022, we completed cost savings reviews aimed at operating efficiencies to better position us for profitable growth. We identified a number of operational synergies and cost savings opportunities, including a reduction in workforce. These restructuring charges are recorded within Operating Expenses on the accompanying unaudited condensed consolidated statement of operations.

During the three and nine months ended September 30, 2023 and 2022, the following activity was recorded:

	Employee Severance, Benefits and Related Costs			
	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2023	2022	2023	2022
Accrued expenses, beginning of period	$ 1,101	$ 1,101	$ 381	-
Restructuring charges	453	-	1,486	$ 1,201
Cash payments	(334)	(553)	(647)	(653)
Accrued expenses, end of period	$ 1,220	$ 548	$ 1,220	$ 548

17. COMMITMENTS AND CONTINGENCIES

Litigation

We are currently party to litigation with a manufacturing supplier. While it is not possible to predict the outcome of this litigation with certainty, we do not anticipate the resolution will have a material, adverse impact on our financial position. We believe that the likelihood of the resolution being materially adverse to our financial statements is remote and as such have not recorded any contingent liabilities within the accompanying Unaudited Condensed Consolidated Financial Statements. In addition, we have not recorded any potential favorable resolution to the litigation due in accordance with ASC 450- 30, Gain Contingencies.

Gain Contingency

In June 2022, we became aware of a misclassification of Harmonized Tariff Schedule (HTS) codes filed with the U.S. Customs and Border Protection (U.S. Customs) on certain products imported into the U.S. associated with the Acquired Brands during 2021 and 2022. As a result of the misclassification of HTS codes we have paid duties in excess of the required amount. We are in the process of filing multiple post summary corrections with U.S. Customs to seek refunds of duties paid in excess of the correct HTS codes. We have the potential to recover th e total amount of overpaid duties resulting in a potential refund of approximately $7.7 million, of which we have received $3.2 million in refunds during the year ended December 31, 2022 and $1.9 million in refunds during the nine months ended September 30, 2023. We are accounting for these post summary corrections as a gain contingency, and as such have not recorded these potential refunds within the accompanying unaudited condensed consolidated balance sheet due to uncertainty of collection. Refunds received will be recognized as a reduction to the cost of goods sold when, and if, the refunds are received.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

During the third quarter of 2023, our financial performance improved, resulting in higher profitability, despite experiencing a decline in net sales over the third quarter of 2022. The decline in net sales over the year ago period was due to a difficult macroeconomic backdrop coupled with elevated inventory levels at many of our retail partners. However, we observed steady improvements in the third quarter compared to the first six months of the year.

In addition to the challenges faced in the third quarter, we experienced distribution challenges in 2021 that resulted in late delivery of Fall 2021 inventory into the first half of 2022, creating a difficult year-over-year comparison for the first nine months of 2023. Furthermore, the third quarter and first nine months of 2022 included net sales from the Servus and NEOS brands, which we divested on March 30, 2023 and September 30, 2022, respectively.

Although third quarter net sales did not reach year ago levels, our efforts to enhance our distribution and fulfillment capabilities along with cost reduction initiatives, including reduced freight rates, has allowed us to transform a 14.8% decrease in revenue into a 22.8% increase in operating income.

The upturn in our profitability during the third quarter of 2023 in comparison to the third quarter of 2022, can be attributed to improved gross margins and reduced operating expenses. The increase in gross margin as a percentage of net sales is due to several key factors. Notably, higher Wholesale segment gross margins resulted from the realization of pricing actions taken in the second half of 2022. Additionally, a reduction in inbound logistics costs and a greater proportion of Retail segment sales, which carry higher gross margins than our Wholesale and Contract Manufacturing segments, also contributed to the increase.

The decrease in operating expenses as a percentage of net sales was driven primarily by a decrease in out-bound freight expense and other variable expenses associated with lower sales and improved distribution center efficiencies compared with the year ago period as well as a decrease in discretionary spending.

During the first quarter of 2023, we divested the Servus brand. The gain of approximately $1.3 million on the sale of the Servus brand during the first quarter was recorded within Interest Expense and Other - net in the Unaudited Condensed Consolidated Statements of Operations for the nine months ended September 30, 2023. The Servus brand was sold to allow us to focus on our more profitable core brands and allocate resources toward growth and development of additional opportunities with those brands moving forward.

We completed the sale of the NEOS brand during the third quarter 2022. The sale of NEOS inventory is recorded within net sales and cost of goods sold within the Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2022. The gain on sale of the NEOS assets is recorded as a reduction of operating expenses within the Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2022.

RESULTS OF OPERATIONS

The following tables set forth, for the periods indicated, information derived from our Unaudited Condensed Consolidated Financial Statements, expressed as a percentage of net sales. The discussion that follows each table should be read in conjunction with our Unaudited Condensed Consolidated Financial Statements as well as our annual report on Form 10-K for the year ended December 31, 2022.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	63.0	64.8	61.9	64.6
Gross margin	37.0	35.2	38.1	35.4
Operating expenses	25.7	27.3	31.9	29.0
Income from operations	11.3%	7.9%	6.2%	6.4%

Three Months Ended September 30, 2023 compared to Three Months Ended September 30, 2022

	Three Months Ended September 30,			
($ in thousands)	2023	2022	Inc./ (Dec.)	Inc./ (Dec.)
NET SALES:				
Wholesale	$ 99,716	$ 120,742	$ (21,026)	(17.4)%
Retail	24,523	23,429	1,094	4.7
Contract Manufacturing	1,375	3,315	(1,940)	(58.5)
Total Net Sales	$ 125,614	$ 147,486	$ (21,872)	(14.8)%

Wholesale net sales for the third quarter of 2023 and 2022 were $99.7 million and $120.7 million, respectively. Excluding $3.6 million of net sales associated with the disposition of inventory assets from the sale of the NEOS brand, Wholesale net sales for the third quarter of 2022 were $117.1 million. The decrease in Wholesale net sales in the third quarter of 2023 versus the prior year period was primarily due to elevated inventory levels at our retail partners within our Wholesale channel and a difficult macroeconomic backdrop. Additionally, the three months ended September 30, 2022 included net sales under the Servus brand, which was divested prior to the third quarter of 2023.

The increase in Retail net sales for the three months ended September 30, 2023 compared to the same period last year was primarily due to enhanced digital marketing efforts in our branded e-Commerce business.

Contract Manufacturing sales decreased in the third quarter of 2023 compared to the third quarter of 2022 due to the expiration of certain contracts with the U.S. Military.

($ in thousands)	Three Months Ended September 30, 2023	2022	Inc./ (Dec.)
GROSS MARGIN:			
Wholesale Margin $'s	$ 34,599	$ 40,007	$ (5,408)
Margin %	*34.7%*	*33.1%*	*1.6%*
Retail Margin $'s	$ 11,781	$ 11,413	$ 368
Margin %	*48.0%*	*48.7%*	*(0.7)%*
Contract Manufacturing Margin $'s	$ 158	$ 510	$ (352)
Margin %	*11.5%*	*15.4%*	*(3.9)%*
Total Margin $'s	$ 46,538	$ 51,930	$ (5,392)
Margin %	*37.0%*	*35.2%*	*1.8%*

Wholesale gross margin for the third quarter of 2023 was $34.6 million or 34.7% of net sales compared to gross margin for the prior period of $40.0 million or 33.1% of net sales. Excluding the impact on gross margin related to the disposition of inventory assets from the sale of the NEOS brand, Wholesale gross margin was $38.9 million, or 33.2% of adjusted net sales, for the third quarter of 2022. The increase in Wholesale gross margin as a percentage of net sales was primarily due to the realization of pricing actions taken in the second half of 2022 as well as lower in-bound logistics costs compared to the year ago period.

The reduction in Retail gross margin as a percentage of net sales for the three months ending September 30, 2023 compared to the same period last year, was attributed to our deliberate promotion of products on our e-Commerce platforms, aimed at optimizing inventory levels.

Contract Manufacturing gross margin as a percentage of net sales decreased in the third quarter of 2023 compared to the third quarter of 2022 due to certain private label contracts that carried lower margins.

($ in thousands)	Three Months Ended September 30, 2023	2022	Inc./ (Dec.)	Inc./ (Dec.)
OPERATING EXPENSES:				
Operating Expenses	$ 32,259	$ 40,305	$ (8,046)	(20.0)%
% of Net Sales	*25.7%*	*27.3%*	*-1.6%*	

In the third quarter of 2023, operating expenses were $30.7 million or 24.5% of net sales, excluding $0.7 million of Acquisition-related amortization, $0.4 million of expenses related to the closure of our Rock Island manufacturing facility, and $0.5 million of restructuring costs. In the third quarter of 2022, operating expenses were $39.5 million or 27.4% of adjusted net sales, excluding $0.8 million of Acquisition-related amortization and $0.03 million related to the disposition of assets.

The reduction in operating expenses, both in total and as a percentage of net sales in the third quarter of 2023 compared to the third quarter of 2022 was attributed to lower outbound freight costs and other variable expenses stemming from decreased sales volumes, as well as enhanced efficiencies at our distribution centers. Furthermore, a decrease in discretionary spending and a more streamlined operating structure in the third quarter of 2023 compared to the year ago period also contributed to these lower operating expenses.

($ in thousands)	Three Months Ended September 30, 2023	2022	Inc./ (Dec.)	Inc./ (Dec.)
INCOME TAXES:				
Income Tax (Benefit) Expense	$ 1,803	$ 1,753	$ 50	2.9%
Effective Tax Rate	*20.9*%	*23.5%*	*(2.6)*%	

The decrease in our effective tax rate in the third quarter of 2023 compared to the same year ago period was due to changes in our projected income generated from our international business for fiscal year 2023 compared to fiscal year 2022.

Nine Months Ended September 30, 2023 compared to Nine Months Ended September 30, 2022

($ in thousands)	Nine Months Ended September 30, 2023	2022	Inc./ (Dec.)	Inc./ (Dec.)
NET SALES:				
Wholesale	$ 251,228	$ 385,858	$ (134,630)	(34.9)%
Retail	79,114	78,070	1,044	1.3
Contract Manufacturing	5,539	12,621	(7,082)	(56.1)
Total Net Sales	$ 335,881	$ 476,549	$ (140,668)	(29.5)%

For the nine months ended September 30, 2023 and 2022, Wholesale net sales were $252.8 million and $382.3 million, respectively, excluding returns resulting from a supplier-related dispute in the current period and net sales relating to the disposition of inventory assets from the sale of the NEOS brand in the prior period. The decrease in Wholesale sales for the nine months ended September 30, 2023 was due to elevated inventory levels at our retail partners within our Wholesale channel and a softer demand environment compared to the year ago period. In addition, distribution challenges in 2021 resulted in late delivery of Fall 2021 inventory into the first half of 2022, creating a tough year-over-year comparison. Furthermore, the nine months ended September 30, 2023 included nine months of net sales from the Servus brand which was divested in the first quarter of 2023.

Retail net sales increased for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to enhanced digital marketing efforts in our branded e-Commerce business.

The decrease in Contract Manufacturing sales for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 was due to the expiration of certain contracts with the U.S. Military.

($ in thousands)	Nine Months Ended September 30, 2023	2022	Inc./ (Dec.)
GROSS MARGIN:			
Wholesale Margin $'s	$ 89,084	$ 128,775	$ (39,691)
Margin %	*35.5%*	*33.4%*	*2.1%*
Retail Margin $'s	$ 38,379	$ 37,991	$ 388
Margin %	*48.5%*	*48.7%*	*(0.2)%*
Contract Manufacturing Margin $'s	$ 406	$ 1,741	$ (1,335)
Margin %	*7.3%*	*13.8%*	*(6.5)%*
Total Margin $'s	$ 127,869	$ 168,507	$ (40,638)
Margin %	*38.1%*	*35.4%*	*2.7%*

Wholesale gross margin for the first nine months of 2023 and 2022 was $90.4 million, or 35.8% of adjusted net sales and $127.7 million, or 33.4% of adjusted net sales, respectively, excluding returns resulting from a supplier-related dispute in the current period and gross margin relating to the disposition of inventory assets in connection with the sale of the NEOS brand in the prior period. The increase in Wholesale gross margin as a percentage of net sales for the nine months ended September 30, 2023 compared to the year ago period was due to realization of pricing actions taken in 2022 as well as lower in-bound logistics costs compared to the year ago period.

Retail gross margin as a percentage of net sales decreased slightly for the nine months ended September 30, 2023 compared to the same period a year ago primarily due to the Lehigh business accounting for a larger percentage of Retail sales which carries lower margins.

Contract Manufacturing gross margin as a percentage of net sales decreased for the nine months ended September 30, 2023 compared to the same period a year ago due to certain private label contracts that carried lower margins.

($ in thousands)	Nine Months Ended September 30, 2023	2022	Inc./ (Dec.)	Inc./ (Dec.)
OPERATING EXPENSES:				
Operating Expenses	$ 107,233	$ 138,089	$ (30,856)	(22.3)%
% of Net Sales	*31.9%*	*29.0%*	*2.9%*	

Operating expenses for the nine months ending September 30, 2023, were $103.2 million, excluding $2.1 million of Acquisition-related amortization, $0.4 million due to the closure of the Rock Island facility, and $1.5 million of restructuring costs. Operating expenses for the nine months ending September 30, 2022 were $134.1 million, excluding $2.3 million in Acquisition-related amortization, $0.03 million is disposition of assets, $0.4 million in acquisition-related integration expenses, and $1.2 million in restructuring costs. The reduction in operating expenses for the nine months ended September 30, 2023 was driven by lower out-bound freight expense and other variable expenses stemming from decreased sales volumes.

($ in thousands)	Nine Months Ended September 30, 2023	2022	Inc./ (Dec.)	Inc./ (Dec.)
INCOME TAXES:				
Income Tax (Benefit) Expense	$ 980	$ 4,057	$ (3,077)	(75.8)%
Effective Tax Rate	*20.9%*	*22.5%*	*(1.6)%*	

The decrease in our effective tax rate for the nine months ended September 30, 2023 compared to the same year ago period was due to changes in our projected income generated from our international business for fiscal year 2023 compared to fiscal year 2022.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our principal sources of liquidity have been our income from operations and income from the sale of the Servus brand during the nine months ended September 30, 2023.

During the nine months ended September 30, 2023, our primary use of cash was payments on our credit facilities. Our working capital consists primarily of trade receivables and inventory, offset by short-term debt and accounts payable. Our working capital fluctuates throughout the year as a result of our seasonal business cycle and business expansion and is generally lowest in the months of January through March of each year and highest during the months of May through October of each year. We typically utilize our revolving credit facility to fund our seasonal working capital requirements. As a result, balances on our revolving credit facility can fluctuate significantly throughout the year.

Our capital expenditures relate primarily to projects relating to our corporate offices, property, merchandising fixtures, molds and equipment associated with our manufacturing and distribution operations and for information technology. Capital expenditures were $3.4 million and $7.4 million for the nine months ended September 30, 2023 and 2022, respectively.

We lease certain machinery, one shoe center, a distribution center in Reno, Nevada, and manufacturing facilities under operating leases that generally provide for renewal options.

We believe that our ABL Facility, coupled with cash generated from operations will provide sufficient liquidity to fund our operations and debt obligations for at least the next twelve months. Our continued liquidity, however, is contingent upon future operating performance, cash flows and our ability to meet financial covenants under our credit facility. For more information regarding our credit facility see Note 11 of our Notes to Unaudited Condensed Consolidated Financial Statements.

Cash Flows

	Nine Months Ended September 30,	
($ in millions)	2023	2022
Operating activities	$ 31.1	$ (9.3)
Investing activities	14.4	(0.2)
Financing activities	(47.0)	10.9
Net change in cash and cash equivalents	$ (1.5)	$ 1.4

Operating Activities. Cash provided by operating activities for the nine months ended September 30, 2023 was primarily derived from a decrease in inventory, partially offset by a decrease in accounts payable. Cash used in operating activities for the nine months ended September 30, 2022 was primarily due to increased inventories and a result of paying down accounts payable.

Investing Activities. Cash provided by investing activities for the nine months ended September 30, 2023 was primarily derived from the proceeds from sale of the Servus brand (see Note 4). Cash used in investing activities for the nine months ended September 30, 2022 was primarily related to the purchase of investments in molds and equipment associated with our manufacturing operations, information technology, and improvements to our distribution facility, mostly offset by the proceeds from the sale of the NEOS brand (see Note 5).

Financing Activities. Cash used in financing activities for the nine months ended September 30, 2023 was primarily related to payments on our revolving credit facility and term loan. Cash provided by financing activities for the nine months ended September 30, 2022 was primarily related to proceeds from our revolving credit facility.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the Company's Unaudited Condensed Consolidated Financial Statements, which have been prepared in accordance with U.S. GAAP, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, management evaluates these estimates. Estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Historically, actual results have not been materially different from the Company's estimates. However, actual results may differ materially from these estimates under different assumptions or conditions.

We have identified the critical accounting policies used in determining estimates and assumptions in the amounts reported in our Management Discussion and Analysis of Financial Conditions and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2022.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES REFORM ACT OF 1995

This report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, which are intended to be covered by the safe harbors created thereby. Those statements include, but may not be limited to, all statements regarding our and management's intent, belief, and expectations, such as statements concerning our future profitability and our operating and growth strategy. Words such as "believe," "anticipate," "expect," "will," "may," "should," "intend," "plan," "estimate," "predict," "potential," "continue," "likely," "would," "could" and similar expressions are intended to identify forward-looking statements. Investors are cautioned that forward-looking statements involve risk and uncertainties including, without limitations, dependence on sales forecasts, changes in consumer demand, seasonality, impact of weather, competition, reliance on suppliers, risks inherent to international trade, changing retail trends, the loss or disruption of our manufacturing and distribution operations, cybersecurity breaches or disruption of our digital systems, fluctuations in foreign currency exchange rates, economic changes, as well as other factors set forth under the caption "Item 1A, Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022 (filed March 10, 2023) and Quarterly Reports on Form 10-Q for the quarters ended March 31, 2023 (filed May 10, 2023) and June 30, 2023 (filed August 9, 2023) and other factors detailed from time to time in our filings with the Securities and Exchange Commission. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate. Therefore, there can be no assurance that the forward-looking statements included herein will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. We assume no obligation to update any forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes to our market risk as disclosed in Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the year ended December 31, 2022.

ITEM 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, our management, with the participation of our chief executive officer and chief financial officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 and 15d-15 promulgated under the Exchange Act. Based upon this evaluation, our chief executive officer and our chief financial officer concluded that, as of September 30, 2023, our disclosure controls and procedures were (1) designed to ensure that material information relating to our Company is accumulated and made known to our management, including our chief executive officer and chief financial officer, in a timely manner, particularly during the period in which this report was being prepared, and (2) effective, in that they provide reasonable assurance that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Management believes, however, that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Changes in Internal Controls There have been no material changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act) during our fiscal quarter ended September 30, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II -- OTHER INFORMATION

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unregistered Sales of Equity Securities

None.

Use of Proceeds

Not applicable.

Our shareholder repurchase program expired on March 4, 2022.

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ITEM 6. EXHIBITS

Exhibit Number	Description
31.1*	Certification Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a) of the Principal Executive Officer.
31.2*	Certification Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a) of the Principal Financial Officer.
32**	Section 1350 Certification of Principal Executive Officer/Principal Financial Officer.
101*	Attached as Exhibits 101 to this report are the following financial statements from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 formatted in Inline XBRL (“eXtensible Business Reporting Language”): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Shareholders' Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) related notes to these financial statements.
104*	Cover Page Interactive Data File, formatted in Inline XBRL and contained in Exhibit 101

* Filed with this Report.
** Furnished with this Report.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ROCKY BRANDS, INC.

Date: November 8, 2023

By: /s/ Thomas D. Robertson
Thomas D. Robertson
Chief Operating Officer, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer and Duly Authorized Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a) OF THE PRINCIPAL EXECUTIVE OFFICER

I, Jason Brooks, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rocky Brands, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2023
/s/ Jason Brooks
Jason Brooks
Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a) OF THE PRINCIPAL FINANCIAL OFFICER

I, Tom Robertson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rocky Brands, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2023
/s/ Thomas D. Robertson
Thomas D. Robertson
Chief Operating Officer, Chief Financial Officer
and Treasurer
(Principal Financial and Accounting Officer)

Exhibit 32

**CERTIFICATION PURSUANT TO RULE 13a - 14(b) AND
SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE
UNITED STATES CODE AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Rocky Brands, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned hereby certifies, pursuant to Section 1350 of Title 18 of the United States Code as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jason Brooks
Jason Brooks
Chief Executive Officer (Principal Executive Officer)
November 8, 2023

/s/ Thomas D. Robertson
Thomas D. Robertson
Chief Operating Officer, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)
November 8, 2023